

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-02 INR-10
L-03 NSAE-00 NSC-05 PA-02 SP-02 SS-15 USIA-15
AID-05 COME-00 EB-08 FRB-01 XMB-04 OPIC-06 LAB-04
SIL-01 OMB-01 AGRE-00 /102 W
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R 021032Z MAR 78
FM AMEMBASSY ROME
TO SECSTATE WASHDC 0962
DEPARTMENT OF TREASURY WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMCONSUL FLORENCE POUCH
AMCONSUL GENOA POUCH
AMEMBASSY THE AGUE
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMCONSUL MILAN POUCH
AMCONSUL NAPLES POUCH
AMCONSUL PALERMO POUCH
AMEMBASSY PARIS
AMCONSUL TRIESTE POUCH
AMCONSUL TURIN POUCH

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BRUSSELS FOR EC, PARIS FOR OECD

E.O. 11652 N/A
TAGS: EFIN, IT
SUBJ: ECONOMIC MEASURES CONTINUE TO FLOW THROUGH PARLIAMENT
IN SPITE OF POLITICAL CRISIS

1. SUMMARY. IN THE FINAL DAYS OF DECEMBER, 1977 BEFORE
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THE GOVERNMENT RESIGNED, THE COUNCIL OF MINISTERS APPRO-
VED SEVERAL DECREE LAWS -- LAWS WHICH ARE EFFECTIVE IMMEDIATELY
BUT SUBJECT TO PARLIAMENTARIAN RATIFICATION WITHIN 60 DAYS --
AFFECTING THE ECONOMIC SCENE. MOST OF THESE DECREE LAWS REGARD
MEASURES WHICH WERE AGREED TO IN PRINCIPLE IN THE JULY ACCORDS,
AND WHICH HAVE AN IMPACT ON THE ECONOMY IN 1978. IN SPITE OF
THE ABSENCE OF A FORMAL GOVERNMENT PARLIAMENT HAS PROCESSED THESE

DECREE LAWS INTO FINAL LEGISLATION. END SUMMARY.

2. WHEN THE GOVERNMENT REVISED ITS PUBLIC SECTOR DEFICIT GOAL IN DECEMBER 1977 FROM 19,000 TO 24,000 BILLION LIRE IT IMMEDIATELY FOLLOWED UP WITH A SERIES OF LEGISLATIVE PROPOSALS NEEDED TO HELP REACH EVEN THAT GOAL.

3. EXTRAORDINARY EXPENDITURES AUTHORIZATIONS WHICH WILL COST AT LEAST 650 BILLION LIRE COVER THE FOLLOWING:

A) PARLIAMENTARY RATIFICATION ON FEBRUARY 23, 1978 OF THE DECREE LAW OT PROVIDE 300 BILLION LIRE IN EMERGENCY FINANCIAL ASSISTANCE TO SOME FALTERING PRIVATE INDUSTRIES (SEE SEPTEL).

B) ACTION WAS COMPLETED ON THE MEASURE PERMITTING SPECIAL TRANSFERS OF 101 BILLION LIRE TO CERTAIN STATE HOLDING COMPANIES, OF WHICH 50 BILLION LIRE TO IRI FOR COSTS INCURRED IN REORGANIZING THE FAILED STATE ENTERPRISE UNIDAL, 26 BILLION TO ENI FOR RE-CAPITALIZATION OF A SYNTHETIC FIBER HOLDING COMPANY, AND 25 BILLION TO EFIM FOR RECAPITALIZATION OF ITS ALUMINUM HOLDING ALSAR.

C) THE CARETAKER GOVERNMENT APPROVED A DECREE LAW ON JANUARY 30 EXTENDING THROUGH MARCH 31, 1978 CENTRAL GOVERNMENT PAYMENT OF SOME EMPLOYER'S CONTRIBUTIONS FOR EMPLOYEES HEALTH INSURANCE (FISCALIZATION"). THE SENATE HAS PASSED IT AS PROPOSED AND IT NOW AWAITS CHAMBER APPROVAL. THE EXTENSION THROUGH MARCH UNCLASSIFIED

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31 WILL ADD 250 BILLION LIRE TO EXPENDITURES, AND IT IS WIDELY EXPECTED THAT ONCE A NEW GOVERNMENT IS IN PLACE, THE COVERAGE WILL BE EXTENDED THROUGH THE YEAR FOR A TOTAL COST OF 1,600 BILLION LIRE.

D) PARLIAMENT RATIFIED ON FEBRUARY 23, 1978, A RADICALLY MODIFIED VERSION OF THE DECREE LAW ON LOCAL GOVERNMENT FINANCE SENT TO PARLIAMENT ON DECEMBER 29, 1977. GENERALLY, THE BILL SETS AN OVERALL EXPENDITURE CEILING, TRANSFERS SOME DEBT PAYMENTS TO THE CENTRAL GOVERNMENT, AND SETS GUIDELINES FOR LOCAL GOVERNMENT BUDGETS, BORROWING AND SPENDING. A SEPARATE REPORT FOLLOWS.

4. EXTRAORDINARY REVEUES WILL REPORTEDLY RAISE ABOUT 2,000 BILLION LIRE, 300 BILLION LESS THTN ORGINAL ESTIMATES BEFORE PARLIAMENTARIAN MODIFICATIONS. THESE INCLUE:

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A) LOCAL GOVERNMENT TAXES (ILOR): THE PREVIOUS SPREAD OF ILOR RATES OF FROM 9.4 TO 14.7 PERCENT WAS MERGED TO ONE RATE AT 15 PERCENT EFFECTIVE FROM JANUARY 1, 1977, TO DECEMBER 31, 1980. THIS IS EXPECTED TO HAVE ONLY A MINOR FISCAL IMPACT. AT THE SAME TIME, THE LEGAL GROUNDS WERE LAID WHICH WILL PERMIT TAXPAYERS TO ASSESS THIS TAX AND PAY IT AT THE TIME THEY FILE THEIR RETURNS. ILOR IS NOW ASSESSED THROUGH TAX ROLLS AND COLLECTED BY TAX COLLECTORS. THIS NEW PROCEDURE, IMITATING UNCLASSIFIED

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THAT IMPLEMENTED IN 1976 FOR BUSINESS AND SELFEMPLOYED INCOME TAXES, WILL APPLY BEGINNING WITH THE 1977 TAX YEAR. ALSO, THREE-QUARTERS OF EXPECTED ILOR TAXES DUE IN A GIVEN YEAR (BEGINNING WITH 1978 TAX YEAR), WILL BE DUE BY OCTOBER 30 OF THAT YEAR. THIS IS SIMILAR TO IMITATES THE PREPAYMENT OF INCOME TAX FOR BUSINESSES AND THE SELF-EMPLOYED WHICH WAS IMPLEMENTED

IN 1977. THE LATTER TWO MEASURES WILL HAVE A ONE-TIME FISCAL IMPACT IN 1978 BY TWICE ADVANCING THE PAYMENT SCHEDULE OF THIS TAX.

B) BANK INTEREST. WITHHOLDING AT SOURCE ON BANK INTEREST WAS RAISED FROM 16 PERCENT TO 18 PERCENT EFFECTIVE FROM JANUARY 1, 1978. THE DECREE LAW HAD MADE SUCH CHANGE RETROACTIVE TO JANUARY 1, 1977, BUT PARLIAMENT DELETED THAT PROVISION.

C) CONTESTED TAXES. TAX LIABILITY UNDER THE OLD TAX SYSTEM (PRIOR TO 1974) EXPIRED AT THE END OF 1977 UNLESS TAXPAYERS HAD RECEIVED NOTIFICATION OF TAXES DUE FROM THE FINANCE AUTHORITIES DATED PRIOR TO THAT TIME. HOWEVER, THE MEASURE JUST APPROVED REQUIRES THAT THE TAXPAYER SO NOTIFIED BY INFORMED OF THE AMOUNT OF TAXES DUE BEGINNING JULY 1, 1978, BUT NO LATER THAN JULY 1, 1979. UPON NOTIFICATION OF THE AMOUNT OF TAXES DUE, THE TAXPAYER, IF HE CONTESTS THE TAX, MUST NOW PAY IMMEDIATELY ONE-THIRD OF THE ASSESSED TAX. ONE-THIRD MORE FALLS DUE UPON COMPLETION OF REVIEW BY THE LOWEST TAX COURT (ASSUMING THE ASSESSMENT, OR A PART OF IT, IS UPHELD) AND THE FULL ASSESSED TAX IS DUE IF A LIKE DECISION IS REACHED BY SECOND HIGHEST TAX COURT, THE HIGHEST COURT, AND THE COURT OF APPEALS. SOME ESTIMATES OF THE AMOUNT OF UNSETTLED TAX BILLS RANGE UP TO AS HIGH AS 15,000 BILLION LIRE. THE ORIGINAL DECREE LAW HAD CALLED FOR 50 PERCENT PREPAYMENT AND 100 PERCENT PAYMENT AFTER THE FIRST REVIEW AND INCLUDED CONTESTED TAX ASSESSMENTS UNDER THE PRESENT TAX LAW AS WELL.

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D) OTHER: SOME OTHER REVENUE BEARING MEASURES INCLUDED IN THE BILL WERE: (1) AN INCREASE IN THE SURTAX PER CUBIC LITER FROM 12,000 TO 18,000 LIRE ON DIESEL-POWERED MOTOR VEHICLES (BUT PROVIDING A 50 PERCENT REDUCTION FOR RENTED CARS, TAXIS AND HALF-TON TRUCKS USED FOR TRANSPORTING MERCHANDISE) AND RAISING THE MINIMUM FEE FROM 200,000 TO 300,000 LIRE PER YEAR, (2) REDUCTION OF THE MANUFACTURING TAX DISCOUNT FOR SOME CATEGORIES OF GASOLINE COUPONS (PRIMARILY FOR TOURISTS AND ITALIANS RESIDING ABROAD) AND AN INCREASE OF THE MANUFACTURING TAX ON SOME PETROLEUM PRODUCTS, AND FINALLY, (3) AN INCREASE IN THE OVERNIGHT HOTEL TAX (NOT TO BE CONFUSED WITH THE VALUE-ADDED TAX) WHICH VARIES FROM COMMUNITY TO COMMUNITY AND IS SHARED BY COMMUNITIES AND THE LOCAL TOURIST AGENCIES, WHICH WAS DOUBLED FOR 1978 AND TRIPLED FOR 1979.

5. COMMENT. NONE OF THE MEASURES WERE SURPRISING, AND NONE ARE TRAIL-BLAZING, EXCEPT THE LAW ON LOCAL GOVERNMENT FINANCE. THE IMPORTANT POINT IS THAT THE ADDITIONAL REVENUES ARE NECESSARY AND THAT PARLIAMENT ACTED DESPITE THE POLITICAL CRISIS.#HOLMES

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